

Dallas County Hospital
Perry, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2012 and 2011**

Together with Independent Auditor's Report

Dallas County Hospital

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Dallas County Hospital

Officials
June 30, 2012

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Schulz	Chairman	December 31, 2012
Rich Jones	Vice Chairman	December 31, 2014
Marsha McClintock	Secretary	December 31, 2012
Marc Meyer	Treasurer	December 31, 2016
Julie Connolly	Member	December 31, 2016
Joelle Miner	Member	December 31, 2012
Mary Laborde	Member	December 31, 2014

Hospital Officials

Matt Wille	Chief Executive Officer	Indefinite
Sandra Christensen	Chief Financial Officer	Indefinite
Donna Vandelaar	Chief Clinical Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the accompanying basic financial statements of Dallas County Hospital (Hospital), as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Spring Valley, Inc. (Spring Valley), a component unit of Dallas County Hospital as of or for the years ended June 30, 2012 and 2011, for which the Hospital is the holder of a note receivable from Spring Valley. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Spring Valley is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas County Hospital as of June 30, 2012 and June 30, 2011, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary statements (Exhibits 1 – 6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Slip Johnson, LLP

Omaha, Nebraska,
October 19, 2012.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

As management of Dallas County Hospital (Hospital), we offer readers of the Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2012, 2011 and 2010. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of the Hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$1,314,525 in 2012 to \$37,255,866, compared to a \$4,799,172 increase to \$35,941,341 in 2011.
- Total assets limited as to use decreased by \$960,467 in 2012, and increased by \$15,280,257 in 2011.
- Capital assets, net, decreased by \$326,951 in 2012, and decreased by \$172,098 in 2011.
- Total debt remains at zero in both 2012 and 2011.
- Total net assets increased by \$1,105,908 in 2012, by \$5,531,835 in 2011, and by \$4,362,077 in 2010.
- Net patient service revenue decreased by \$1,237,657 in 2012 and by \$7,924,689 in 2011.
- Expenses decreased by \$998,191 or 7% in 2012, and by \$4,353,752 or 24% in 2011.
- Total margin for fiscal year 2012 was 7.9% and 37.1% for fiscal year 2011.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheet and the statement of revenue, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets is the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

During the 2011 fiscal year, a portion of the outpatient surgical services (also referred to as DCHOS throughout this report) was sold to a third party that held an option to purchase. Annual gross charges from this business segment were 62.5% of total gross charges in 2010. These services were provided at a location not attached to the Hospital in Perry, Iowa. The Perry location continues to operate as a critical access hospital. Many of the variances described below between the 2011 and 2010 fiscal years are a result in the change in services provided as a result of this sale.

Also during the 2011 fiscal year, the Hospital Board adopted a new investment policy. The goals of this policy are to assure preservation of capital through prudent investment strategies; to retain liquidity to meet projected cash needs; to preserve funds for future capital needs, and to realize the best available rate of return. This policy also gives guidance for the balance of operating funds to be maintained at a range of 75-90 days cash on hand. As a result of the adoption of this new policy, assets previously classified as short term investments became board designated as assets limited as to use.

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2012, 2011 and 2010, are presented in Table 1 below.

Table 1 - Condensed Balance Sheets

	June 30, 2012	June 30, 2011	June 30, 2010
Assets:			
Current and other assets	\$ 22,280,221	23,999,540	19,028,270
Long-term portion of notes receivable	3,360,795	--	--
Capital assets, net	11,614,850	11,941,801	12,113,899
Total assets	<u>37,255,866</u>	<u>35,941,341</u>	<u>31,142,169</u>
Liabilities:			
Other liabilities	<u>4,262,768</u>	<u>4,054,151</u>	<u>4,786,814</u>
Total liabilities	<u>4,262,768</u>	<u>4,054,151</u>	<u>4,786,814</u>
Net Assets:			
Invested in capital assets, net of related debt	11,614,850	11,941,801	12,113,899
Expendable for property and equipment	--	25,000	30,440
Unrestricted	<u>21,378,248</u>	<u>19,920,389</u>	<u>14,211,016</u>
Total net assets	\$ <u>32,993,098</u>	<u>31,887,190</u>	<u>26,355,355</u>

As seen by Table 1, net assets increased by \$1,105,908 in 2012, and by \$5,531,835 in 2011.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

The following table presents a summary of the Hospital's historical revenue and expenses for each of the fiscal years ended June 30, 2012, 2011 and 2010:

Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue:			
Net patient service revenue	\$ 11,304,183	12,541,840	20,466,529
County tax revenue	2,055,992	1,991,172	1,892,530
Other operating revenue	<u>427,099</u>	<u>267,354</u>	<u>169,630</u>
Total operating revenue	<u>13,787,274</u>	<u>14,800,366</u>	<u>22,528,689</u>
Operating Expenses:			
Salaries	4,232,967	4,417,100	5,022,555
Employee benefits	1,036,720	1,041,600	1,210,740
Professional fees	3,349,994	3,675,139	4,187,846
Supplies and other	2,999,418	3,553,339	6,647,909
Depreciation and amortization	<u>1,348,612</u>	<u>1,278,724</u>	<u>1,250,604</u>
Total operating expenses	<u>12,967,711</u>	<u>13,965,902</u>	<u>18,319,654</u>
Operating Income	<u>819,563</u>	<u>834,464</u>	<u>4,209,035</u>
Nonoperating Revenue (Expenses), Net:			
Rental property, net	26,150	27,540	21,345
Investment income	274,067	225,857	207,665
Gain on sale of outpatient surgery service	--	4,425,374	--
Loss on disposal of capital assets	(11,952)	(12,015)	(20,086)
Other nonoperating revenue and expenses, net	<u>(9,360)</u>	<u>(9,360)</u>	<u>(9,260)</u>
Nonoperating revenue, net	<u>278,905</u>	<u>4,657,396</u>	<u>199,664</u>
Excess of Revenue Over Expenses Before Change in Net Unrealized Gains and Losses and Capital Grants and Contributions	1,098,468	5,491,860	4,408,699
Change in Net Unrealized Gains and Losses on Other Than Trading Securities	56,566	9,998	--
Capital Grants and Contributions	33,820	93,760	128,839
Transfers to Foundation and Spring Valley	<u>(82,946)</u>	<u>(63,783)</u>	<u>(175,461)</u>
Increase in Net Assets	1,105,908	5,531,835	4,362,077
Net Assets, beginning of year	<u>31,887,190</u>	<u>26,355,355</u>	<u>21,993,278</u>
Net Assets, end of year	<u>\$ 32,993,098</u>	<u>31,887,190</u>	<u>26,355,355</u>

Dallas County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2012 were 197 compared to 229 in 2011. Acute patient days decreased in conjunction with the decrease in discharges. Acute patient days decreased by 26 days in 2012 to 671, increased in 2011 by 48 to 697 from 649 in 2010. The health care reform focus on the prevention of readmissions as well as the continued review of admission criteria causes management to expect very little growth in Acute patient volumes from year to year in the current environment. Swing bed discharges increased by 9 for fiscal year 2012 to a total of 90 discharges. It is management's opinion that advancements in technology that include less invasive orthopedic procedures are contributing to the current levels in swing bed patient volume; thus down from years prior to 2011. Outpatient visits (Perry, Iowa location only) decreased in 2012 by 753 visits to 26,554 compared to an increase of 480 to 27,307 visits in fiscal year 2011. Surgical volumes while down from a non recurring year end spike in 2011, completed the year with 820 procedures which met management's strategic growth goals. Imaging services continue to decline due to the payer coverage discrepancy of coinsurance applying toward procedures completed in the hospital setting and copayments applying when performed in stand-alone clinic settings. It is management's opinion that this drives some of the hospital commercial volumes toward the stand alone facilities. The Hospital began the implementation of a Payment Navigation project this fiscal year which is a tool to share the patient's financial obligation prior to any test or procedure being performed. This is allowing the patient to make an informed decision regarding which type of facility is the best to perform the test for them financially as well as clinically. The number of specialists providing services continues to grow as well as the annual volume of visits in these specialty clinics. Specialty clinic visits increased by 284 visits or 7% in 2012 from 2011.
- **Net Patient Service Revenue:** Gross patient service revenue decreased by \$1,179,247 or (6.7%) compared to fiscal year 2011. During the fiscal year, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by \$12,830. Contractual allowances as a percentage of gross patient revenue increased to 22.3% of gross charges in 2012 compared to 20.7% in 2011. The change in contractual allowances is the result in payer reimbursement and also the addition of the Hospital billing for CRNA professional services effective January 1, 2012. The other reason contractual allowances increased is due to a change in reimbursement from the largest commercial payer, Wellmark. Effective October 1, 2010 reimbursement from this payer transitioned from a percentage of charge model to a fee schedule on an ambulatory grouping system. The impact from this reimbursement model is an annual decrease in net reimbursement of approximate 2% to 3%. The base rate for Perry is expected to be annually adjusted until July 2013 when the payer gets all Iowa CAH facilities into the final groupings. The outpatient reimbursement percentage for Medicare and Medicaid patients also declined from 64% to 57% due to the concerted efforts by the Hospital to cut expenses.
- **Changes in Net Assets:** In fiscal year 2012, \$82,946 was transferred to Spring Valley, Inc. and Dallas County Hospital Foundation, Inc, compared to \$63,783 in 2011. These amounts are considered to be a transfer of equity to these related Hospitals.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2012, 2011 and 2010:

Table 3 - Payer Mix by Percentage

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	41.3%	43.0%	51.4%
Blue Cross (Wellmark)	21.4%	20.4%	19.5%
Medicaid	12.4%	10.5%	6.7%
Private Pay	5.7%	5.2%	2.4%
Other Commercial Insurance	<u>19.2%</u>	<u>20.9%</u>	<u>20.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Dallas County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Significant changes in operations from fiscal year 2012:

- **Other Operating Revenue:** Fiscal year 2012 showed an increase of \$159,745 in other operating revenue. The Hospital, through the Health Information Technology for Economic and Clinical Health Act, completed the criteria to meet the meaningful use designation for Phase I of the implementation of an electronic health record. Incentive dollars recorded as other operating revenue in 2012 and included in the increase above were \$113,992.
- **Salary & Benefits Expense:** Salary expense decreased \$184,133 or (4.2%). Salary and benefit expense constitutes 31.7% of total expenses in 2012 and 39.1% in 2011. Full time equivalents (FTE's) decreased from 94.39 in 2011 to 89.56 in 2012. The decrease of 4.83 FTE's was as a result of continued efforts of Hospital management to match staffing levels with patient volumes. Each position at time of turnover is evaluated for the opportunity of realignment of responsibilities within current staffing levels. This Hospital, while being in close proximity to the Des Moines, Iowa metropolitan area and the continued increase in regulatory requirements, strives to be fiscally responsible with its resources and proactively adjust wages to retain and attract talented and qualified staff. At the same time the Hospital must ensure adequate support staff is available to monitor and administer regulations to remain compliant with State and Federal guidelines.
- **Professional Fees:** Fiscal year 2012 showed a decrease of \$325,145 or (8.85)% decrease in professional fees.
- **Depreciation and Amortization:** Fiscal year 2012 showed an increase in depreciation and amortization by \$69,888.
- **Supplies and Other Expenses:** Fiscal year 2012 showed a decrease in other expenses of \$553,921.
- **Supplies:** The decrease in supply expense is in relation to the decreased revenue in both Inpatient and Outpatient services as well as the continued savings experienced from the migration to group purchasing organization contracts in fiscal year 2012.

NOTES RECEIVABLE

During fiscal year 2012, the Hospital entered into a loan agreement with Spring Valley, Inc. for \$3,495,000. Spring Valley used the proceeds to refund outstanding revenue bonds of which the Hospital was the guarantor of the debt service payments. The loan is secured by the future net revenue of Spring Valley and a mortgage of the Spring Valley facilities. The Hospital also entered into a line of credit with a local lending institution to assist with any short term cash flow obligations during the first years of the loan agreement with Spring Valley. As of June 30, 2012 the Hospital made no draws on the line of credit.

CAPITAL ASSETS

At the end of fiscal year 2012, the Hospital has invested a total of \$842,609 in capital assets. \$451,562 purchased a new CAT Scan machine and contrast injector and \$95,490 was expended to remodel the department for the new equipment. Other capital investments included a new phone system, energy efficiency improvements, and miscellaneous other items. The Hospital continued the journey to meet meaningful use therefore also invested an additional \$117,044 toward the technology infrastructure to meet the Phase I requirement during fiscal year 2012.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

The following table summarizes the Hospital's capital assets as of June 30, 2012, 2011 and 2010:

Table 4 - Capital Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Land	\$ 69,523	69,523	69,523
Land Improvements	1,780,959	1,780,959	1,354,437
Buildings	5,162,357	5,598,939	5,598,939
Building service equipment	6,724,576	7,166,989	7,162,265
Fixed equipment	1,590,240	1,489,207	1,313,600
Major moveable equipment	5,448,271	5,405,802	5,024,097
Construction in progress	--	14,652	96,801
Subtotal	20,775,926	21,526,071	20,619,662
Less accumulated depreciation	<u>9,161,076</u>	<u>9,584,270</u>	<u>8,505,763</u>
Property plant and equipment, net	<u>\$ 11,614,850</u>	<u>11,941,801</u>	<u>12,113,899</u>

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Hospital had \$-0- in short- and long-term debt related to Hospital Revenue Bonds and Notes. The outstanding debt for capital equipment leases at the end of fiscal year 2012 was \$-0-. All outstanding debt was retired in fiscal year 2010 and no new debt has been issued as of end of fiscal year 2012.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact Administration at Dallas County Hospital, 610 10th Street, Perry, Iowa 50220. Phone number 515-465-3547.

Dallas County Hospital

Balance Sheets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 819,313	355,570
Short-term investments	1,872,611	3,431,767
Current portion of note receivable - Spring Valley	134,205	--
Receivables -		
Patient, net of allowance for doubtful accounts of \$452,659		
in 2012 and \$496,428 in 2011	962,430	964,730
Other	261,306	63,174
Succeeding year property tax	2,186,519	2,095,122
Inventories	210,248	218,238
Prepaid expenses	103,419	180,302
	<u>6,550,051</u>	<u>7,308,903</u>
Total current assets		
	6,550,051	7,308,903
Assets limited as to use	15,730,170	16,690,637
Long-term portion of note receivable - Spring Valley	3,360,795	--
Capital assets, net	11,614,850	11,941,801
	<u>37,255,866</u>	<u>35,941,341</u>
Total assets		
	\$ 37,255,866	35,941,341
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	517,930	670,509
Salaries, wages and accrued vacation payable	450,912	425,098
Payroll taxes withheld	100,948	81,783
Estimated third-party payor settlements - Medicare and Medicaid	785,349	723,979
Deferred Medicare revenue	83,208	--
Deferred revenue for previous year property taxes	137,902	57,660
	<u>2,076,249</u>	<u>1,959,029</u>
Total current liabilities		
	2,076,249	1,959,029
Deferred revenue for succeeding year property tax receivable	2,186,519	2,095,122
	<u>4,262,768</u>	<u>4,054,151</u>
Total liabilities		
	4,262,768	4,054,151
Net assets:		
Invested in capital assets, net of related debt	11,614,850	11,941,801
Restricted -		
Expendable for property and equipment	--	25,000
Unrestricted	21,378,248	19,920,389
	<u>32,993,098</u>	<u>31,887,190</u>
Total net assets		
	32,993,098	31,887,190
Total liabilities and net assets	\$ 37,255,866	35,941,341

See notes to financial statements

Dallas County Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 12,155,181	13,101,466
Provision for bad debt	(850,998)	(559,626)
Net patient service revenue	11,304,183	12,541,840
County tax revenue	2,055,992	1,991,172
Other operating revenue	427,099	267,354
Total operating revenue	13,787,274	14,800,366
OPERATING EXPENSES:		
Salaries	4,232,967	4,417,100
Employee benefits	1,036,720	1,041,600
Professional fees	3,349,994	3,675,139
Supplies and other	2,835,755	3,381,704
Depreciation	1,348,612	1,278,724
Insurance	163,663	171,635
Total operating expenses	12,967,711	13,965,902
OPERATING INCOME	819,563	834,464
NONOPERATING REVENUE, NET:		
Rental property, net	26,150	27,540
Investment income	274,067	225,857
Gain on sale of portion of outpatient surgical services	-	4,425,374
Loss on disposal of capital assets	(11,952)	(12,015)
Other nonoperating expense, net	(9,360)	(9,360)
Nonoperating revenue, net	278,905	4,657,396
EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN NET UNREALIZED GAINS AND LOSSES AND CAPITAL GRANTS AND CONTRIBUTIONS	1,098,468	5,491,860
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	56,566	9,998
CAPITAL GRANTS AND CONTRIBUTIONS	33,820	93,760
TRANSFERS TO FOUNDATION AND SPRING VALLEY	(82,946)	(63,783)
INCREASE IN NET ASSETS	1,105,908	5,531,835
NET ASSETS, beginning of year	31,887,190	26,355,355
NET ASSETS, end of year	\$ 32,993,098	31,887,190

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 11,451,061	13,143,850
Cash paid to employees for salaries and benefits	(5,224,708)	(5,486,257)
Cash paid to suppliers and contractors	(6,417,118)	(7,248,908)
Other receipts and payments, net	<u>221,148</u>	<u>292,114</u>
Net cash provided by operating activities	<u>30,383</u>	<u>700,799</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County taxes received	<u>2,134,693</u>	<u>2,044,845</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(1,040,191)	(1,388,431)
Proceeds from the sale of portion of outpatient surgical services	--	4,575,000
Capital grants and contributions	<u>33,820</u>	<u>93,760</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,006,371)</u>	<u>3,280,329</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from short term investments, net	1,559,156	8,393,027
Deposits to (withdrawals from) assets limited as to use, net	1,054,990	(15,234,685)
Investment income	242,688	210,478
Cash received from rental property	26,150	27,540
Note receivable provided to Spring Valley	(3,495,000)	--
Transfers to Foundation and Spring Valley	<u>(82,946)</u>	<u>(63,783)</u>
Net cash used in investing activities	<u>(694,962)</u>	<u>(6,667,423)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	463,743	(641,450)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>355,570</u>	<u>997,020</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 819,313</u>	<u>355,570</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 819,563	834,464
Adjustments to reconcile operating income to net cash provided by operating activities -		
County tax revenue	(2,055,992)	(1,991,172)
Other nonoperating expense, net	(9,360)	(9,360)
Depreciation	1,348,612	1,278,724
(Increase) decrease in current assets -		
Receivables -		
Patients	2,300	1,116,725
Other	(196,591)	34,120
Inventories	7,990	130,042
Prepaid expenses	76,883	60,458
Increase (decrease) in current liabilities -		
Accounts payable	(152,579)	(210,930)
Salaries, wages and accrued vacation payable	25,814	(19,011)
Accrued payroll taxes	19,165	(8,546)
Estimated third-party payor settlements - Medicare and Medicaid	61,370	(514,715)
Deferred Medicare revenue	<u>83,208</u>	<u>--</u>
Net cash provided by operating activities	<u>\$ 30,383</u>	<u>700,799</u>

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Financial Position
June 30, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash	\$ 45,725	138,094
Accounts receivables	3,022	10,388
Prepaid expenses	5,579	10,576
Total current assets	<u>54,326</u>	<u>159,058</u>
RESTRICTED CASH AND INVESTMENTS		
Debt service fund	76,764	132,513
Debt reserve fund	234,649	391,151
Repair and replacement fund	74,647	67,439
Total restricted cash and investments	<u>386,060</u>	<u>591,103</u>
PROPERTY AND EQUIPMENT		
Spring Valley Retirement Facility	4,961,472	4,958,822
Less accumulated depreciation and amortization	2,375,241	2,161,208
Total property and equipment	<u>2,586,231</u>	<u>2,797,614</u>
OTHER ASSET		
Deferred debt issue costs, net of accumulated amortization	<u>20,200</u>	<u>96,834</u>
Total assets	<u>\$ 3,046,817</u>	<u>3,644,609</u>
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 134,205	150,000
Accounts payable	24,485	31,273
Accrued payroll	9,668	26,041
Deposits	36,700	49,450
Accrued interest	21,321	80,693
Deferred rent revenue	2,990	--
Total current liabilities	<u>229,369</u>	<u>337,457</u>
LONG-TERM DEBT , less current maturities	<u>3,860,795</u>	<u>4,055,000</u>
NET ASSETS (DEFICIT)		
Unrestricted		
Designated by the Board for debt service payments	--	53,647
Undesignated	(1,043,347)	(804,113)
Temporarily restricted	--	2,618
Total net assets (deficit)	<u>(1,043,347)</u>	<u>(747,848)</u>
Total liabilities and net (deficit)	<u>\$ 3,046,817</u>	<u>3,644,609</u>

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Activities
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues		
Contributions and grants	\$ 406	1,091
Rental income		
Assisted and independent living units	1,048,668	1,242,913
Garage, guest room and other	23,072	18,215
Meal income	1,526	4,706
Catering	5,009	3,357
Investment return	1,052	2,997
Gain on option to purchase property	--	113,600
Total unrestricted revenues	<u>1,079,733</u>	<u>1,386,879</u>
Net asset released from restriction	49,018	65,382
Total unrestricted revenues and other support	<u>1,128,751</u>	<u>1,452,261</u>
Expenses		
Program services		
Salaries	482,346	505,879
Fringe benefits and payroll taxes	86,359	83,154
Meals	70,966	78,928
Total program services	<u>639,671</u>	<u>667,961</u>
Supporting services		
Administration and general	96,504	80,200
Management fee	52,500	52,500
Rent expense	8,470	8,085
Operation of plant	101,455	109,152
Depreciation and amortization	311,208	233,827
Total supporting services	<u>570,137</u>	<u>483,764</u>
Interest	<u>211,824</u>	<u>247,680</u>
Total expenses	<u>1,421,632</u>	<u>1,399,405</u>
Increase (decrease) in unrestricted net assets before transfers	(292,881)	52,856
Transfers from Dallas County Hospital	--	13,583
Increase (decrease) in unrestricted net assets	<u>(292,881)</u>	<u>66,439</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions from Dallas County Hospital	46,400	--
Net assets released from restriction	<u>(49,018)</u>	<u>(65,382)</u>
Decrease in temporarily restricted net assets	<u>(2,618)</u>	<u>(65,382)</u>
CHANGE IN NET (DEFICIT)	(295,499)	1,057
NET (DEFICIT)		
Beginning	<u>(747,848)</u>	<u>(748,905)</u>
Ending	<u>\$ (1,043,347)</u>	<u>(747,848)</u>

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	\$ (295,499)	1,057
Adjustments to reconcile change in net (deficit) to net cash provided by operating activities		
Depreciation and amortization	311,208	233,827
Unrealized and realized loss on investments	5,959	8,629
Change in assets and liabilities		
Decrease in contributions receivable	--	68,000
(Increase) decrease in prepaid expenses	4,997	(7,007)
(Increase) decrease in accounts receivables	7,366	(6,632)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(6,788)	1,662
Increase (decrease) in accrued payroll	(16,373)	6,352
Increase (decrease) in deposits	(12,750)	4,600
(Decrease) in accrued interest	(59,372)	(2,800)
Increase in deferred rent revenue	2,990	--
Net cash provided by (used in) operating activities	<u>(58,262)</u>	<u>307,688</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Liquidation (funding) of bond fund	55,749	(2,954)
Liquidation (funding) of debt service reserve fund	150,543	(8,303)
(Funding) of repair and replacement fund	(7,208)	(7,215)
Purchase of property and equipment	<u>(2,649)</u>	<u>(86,036)</u>
Net cash provided by (used in) investing activities	<u>196,435</u>	<u>(104,508)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	3,495,000	--
Payments on long-term borrowings	(3,705,000)	(140,000)
Payment of debt issuance costs	<u>(20,542)</u>	<u>--</u>
Net cash (used in) financing activities	<u>(230,542)</u>	<u>(140,000)</u>
NET INCREASE (DECREASE) IN CASH	(92,369)	63,180
CASH		
Beginning	<u>138,094</u>	<u>74,914</u>
Ending	\$ <u><u>45,725</u></u>	<u><u>138,094</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u><u>271,196</u></u>	<u><u>250,480</u></u>

See notes to financial statements

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and is a summary of significant accounting policies of Dallas County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county public hospital organized under Chapter 347, of the Code of Iowa, and governed by a seven member Board of Trustees elected for terms of six years.

A. Reporting Entity

For financial reporting purposes, the Hospital has included all the funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2012 and 2011, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Spring Valley, Inc. (Spring Valley). Spring Valley's financial statements are separately presented on pages 14 – 16.

These financial statements present the Hospital and Spring Valley (its component unit). Certain disclosures about Spring Valley are not included because Spring Valley has been audited separately and a report has been issued under separate cover.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. Net Assets

The balance sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and amortization and are reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

Restricted net assets - Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

Pursuant to Section 1600 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by bond indenture agreements.

G. Patient Receivable, Net

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

I. Property Tax Receivable

For the years ended June 30, 2012 and 2011, the Hospital received approximately 15% and 13%, respectively, of its financial support from property tax revenues, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

J. Assets Limited as to Use

Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

K. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

L. Capital Assets

The Hospital's capital assets are recorded at historical cost. Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line half-year method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 – 20 years
Buildings and fixed equipment	5 – 40 years
Major moveable equipment	3 – 25 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

M. Compensated Absences

Employees of the Hospital earn annual paid time off (PTO) at various specific rates during their period of employment. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability.

N. Deferred Revenue for Previous Year Property Taxes

Deferred revenue consists of property taxes received but not spent.

O. Investments in Debt and Equity Securities

Investments in debt and equity securities, including securities held through external investment pools, are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and realized gains and losses on investments in debt and equity securities are included in nonoperating revenue unless restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses unless the investment are trading securities.

P. Statements of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

Q. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

R. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

S. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

T. Management

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Medical Center-Des Moines.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

U. Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

V. Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Spring Valley is exempt from income taxes under Section 510 of the Internal Revenue Code and a similar provision of state law. However, Spring Valley is subject to federal income tax on any unrelated business taxable income.

W. Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 reporting format.

X. Subsequent Events

The Hospital considered events occurring through October 19, 2012 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2010.

Medicaid – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 41% and 13%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012, and 43% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2012 and 2011, net patient service revenue increased approximately \$258,000 and \$649,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue:		
Inpatient	\$ 1,190,107	1,148,625
Outpatient	14,311,326	15,576,261
Swingbed	<u>883,857</u>	<u>839,651</u>
Total gross patient service revenue	<u>16,385,290</u>	<u>17,564,537</u>
Contractual adjustments:		
Medicare	(1,282,040)	(1,295,715)
Medicaid	(1,025,202)	(947,029)
Other	(1,340,197)	(1,391,865)
Charity care services	<u>(582,670)</u>	<u>(828,462)</u>
Total contractual adjustments	<u>(4,230,109)</u>	<u>(4,463,071)</u>
Net patient and resident service revenue before provision for bad debt	\$ <u>12,155,181</u>	<u>13,101,466</u>

(3) Other Revenue

Other revenue for the years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
CMS electronic health record incentive payments	\$ 113,992	--
Nutritional service	79,521	75,044
Vendor discounts/rebates	64,664	35,885
Grant revenue	63,968	18,802
South addition maintenance	59,225	54,859
Other	37,987	73,477
Medical records transcripts	7,742	9,085
Dietary instruction	<u>--</u>	<u>202</u>
	\$ <u>427,099</u>	<u>267,354</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. The Hospital has elected to record \$113,992 of the incentive payment as other operating revenue in the period earned, and defer approximately \$83,208 related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(4) Deposits and Investments

The Hospital's deposits in banks at June 30, 2012 and 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital manages the following risks in accordance with their investment policy:

Interest Rate Risk: The primary objectives of the Hospital's investment policy is to assure preservation of capital through investments in government insured vehicles, to retain liquidity to meet projected cash needs, and to realize the best available rate of return.

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012, the Hospital's investments in government agency securities are guaranteed by the U.S. Government.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments at June 30, 2012, are held by the third-party custodians in the Hospital's name.

Concentration of Credit Risk: The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2012, the Hospital's investments in government agency securities constituted 100% of its total investments.

The Hospital's investments are carried at fair value. As of June 30, 2012 and 2011, the Hospital's investments, including assets limited as to use, consisted of the following:

	2012	2011
Cash and money market funds	\$ 6,045,149	1,196,067
Certificates of deposit	6,468,554	13,040,437
Government Agency Securities	4,919,238	5,747,439
Accrued interest receivable	169,840	138,461
	<u>\$ 17,602,781</u>	<u>20,122,404</u>

(5) Notes Receivable – Spring Valley

On April 16, 2012 the Hospital entered into a loan agreement (Loan) with Spring Valley for \$3,495,000. Spring Valley used the proceeds to refund the outstanding Independent and Assisted Living Facility Revenue Bonds (Spring Valley Project), Series 2001. The Loan is evidenced by a promissory note (Note) to the Hospital from Spring Valley. The interest rate on the outstanding principal balance of the Note is 3% per annum through April 1, 2017, at which time the interest rate will increase to 4% per annum. The Note is secured by future net revenue of Spring Valley and a mortgage on Spring Valley's facilities. On April 16, 2022, a balloon payment of \$2,045,743 is due. A summary of future principal and interest receipts as of June 30, 2012 is as follows:

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$	134,205	99,450	233,655
2014		133,827	99,828	233,655
2015		137,872	95,783	233,655
2016		142,040	91,615	233,655
2017		146,333	87,322	233,655
2018 - 2022		2,800,723	497,768	3,298,491
	\$	<u>3,495,000</u>	<u>971,766</u>	<u>4,466,766</u>

(6) Assets Limited as to Use

By Board

Cash deposits, certificates of deposit, and government agency securities designated by the Board for future capital improvements as of June 30, 2012 and 2011, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Capital Improvements -		
Cash and money market funds	\$ 4,992,538	251,735
Certificates of deposit	5,648,554	10,553,002
Government Agency Securities	4,919,238	5,747,439
Accrued interest receivable	169,840	138,461
	<u>\$ 15,730,170</u>	<u>16,690,637</u>

By Donor

The Hospital Foundation conducts various projects to raise funds which are used to satisfy needs of the Hospital as determined by its executive Board and the Hospital Board of Trustees.

The amounts segregated as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Expendable for property and equipment		
Cash and money market funds	\$ --	25,000

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(7) Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 were as follows:

	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	14,652	197,882	(212,534)	-
Total capital assets, not being depreciated	84,175	197,882	(212,534)	69,523
Capital assets, being depreciated:				
Land Improvements	1,780,959	--	--	1,780,959
Buildings and fixed equipment	14,255,135	64,063	(842,025)	13,477,173
Major moveable equipment	5,405,802	778,546	(736,077)	5,448,271
Total capital assets, being depreciated	21,441,896	842,609	(1,578,102)	20,706,403
Less accumulated depreciation:				
Land Improvements	(184,967)	(126,108)	--	(311,075)
Buildings and fixed equipment	(5,600,309)	(686,219)	926,855	(5,359,673)
Major moveable equipment	(3,798,994)	(536,285)	844,951	(3,490,328)
Total accumulated depreciation	(9,584,270)	(1,348,612)	1,771,806	(9,161,076)
Total capital assets, being depreciated, net	11,857,626	(506,003)	193,704	11,545,327
Total capital assets, net	\$ 11,941,801	(308,121)	(18,830)	11,614,850
	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	96,801	568,134	(650,283)	14,652
Total capital assets, not being depreciated	166,324	568,134	(650,283)	84,175
Capital assets, being depreciated:				
Land Improvements	1,354,437	--	426,522	1,780,959
Buildings and fixed equipment	14,074,804	--	180,331	14,255,135
Major moveable equipment	5,024,097	550,507	(168,802)	5,405,802
Total capital assets, being depreciated	20,453,338	550,507	438,051	21,441,896
Less accumulated depreciation:				
Land Improvements	(73,130)	(111,837)	-	(184,967)
Buildings and fixed equipment	(4,918,934)	(700,196)	18,821	(5,600,309)
Major moveable equipment	(3,513,699)	(466,691)	181,396	(3,798,994)
Total accumulated depreciation	(8,505,763)	(1,278,724)	200,217	(9,584,270)
Total capital assets, being depreciated, net	11,947,575	(728,217)	638,268	11,857,626
Total capital assets, net	\$ 12,113,899	(160,083)	(12,015)	11,941,801

Depreciation expense of \$1,348,612 and \$1,278,724 in 2012 and 2011, respectively, is included in the accompanying statements of revenue, expenses and change in net assets.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(8) Line of Credit

On April 16, 2012 the Hospital entered into a \$3,700,000 line of credit with West Bank. The line of credit has a maturity date of September 30, 2013 and bears interest at a variable rate not less than 3%. As of June 30, 2012, the Hospital made no draws on the line of credit and had no outstanding balance at June 30, 2012.

(9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained or should coverage be limited and/or not available.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The Hospital is not aware of any known claims or incidents that may be asserted from services to patients. Based upon the Hospital's claims experience, no such accrual has been made.

(10) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Hospital is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Plan members were required to contribute 4.50% of their annual covered salary and the Hospital was required to contribute 6.95% for the year ended June 30, 2011. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012 and 2011 were \$333,283 and \$302,006, respectively, equal to the required contributions for each year.

(11) Operating Leases

The Hospital leases 23,734 rentable square feet (74.99%) of an attached building on the Hospital's campus under a 164 month non-cancelable operating lease (South Building Addition). The monthly lease payments for the operating lease are minimum monthly payments of \$29,468 through the first five years, and then adjusted for each succeeding five year period by a CPI adjustment as defined in the lease, not to exceed a 5% increase. Rental expense for the operating lease was \$371,297 and \$359,510 for the years ended June 30, 2012 and 2011, respectively. Additionally, the Hospital leases surgical equipment under a 48 month operating lease. The monthly lease payments, which includes service coverage, for the operating lease are minimum monthly payments of \$3,348 over the term of the lease. Rental expense for the lease was \$26,782 and \$0- for the years ended June 30, 2012 and 2011, respectively.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2012:

2013	\$	411,470
2014		411,470
2015		411,470
2016		390,876
2017		377,485
2018 - 2020		<u>909,677</u>
Total	\$	<u><u>2,912,448</u></u>

(12) Concentration of Credit Risk

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	17%	23%
Medicaid	8	4
Blue Cross	16	17
Other commercial insurance	23	19
Private pay	<u>36</u>	<u>37</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

(13) Spring Valley, Inc.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that Spring Valley is a component unit of the Hospital. Spring Valley is considered to be a component unit of the Hospital based upon the significance of the related financial obligations with the Hospital. Spring Valley's audited statements of financial position, statements of activities and statements of cash flows of and for the years ended June 30, 2012 and 2011 are included on pages 14-16.

Spring Valley constructed a senior housing facility on the campus of the Hospital entitled the Spring Valley Project (Project). Included in the Project was a limited guarantee agreement by the Hospital with Bankers Trust Company, N.A., the Trustee. The agreement provides that the Hospital would replenish Spring Valley's Debt Service Reserve Fund (Fund) up to its required amount (approximately \$389,000) if funds from the Project are insufficient to maintain the Fund at the required amount. The obligations of the Hospital under the agreement would have remained in effect until the date on which the entire principal and interest on the bonds was provided for. In 2012, the Hospital entered into a loan agreement with Spring Valley for \$3,495,000 to refund the outstanding bonds (See note 5).

The Hospital has included transfers to Spring Valley of \$46,345 and \$13,353 for the years ended June 30, 2012 and 2011, respectively, in the statements of revenue, expenses and changes in net assets. These amounts are related to capital advances provided by the Hospital to Spring Valley.

In addition, the Hospital provided a \$500,000 loan to Spring Valley which will be repaid as funds become available. This amount is included in long-term debt of Spring Valley found on page 14. During 2006, the Hospital established an allowance for uncollectible amounts of \$500,000 related to the receivable above due to the continued financial losses of Spring Valley.

Dallas County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(14) Foundation

On July 1, 2006, Dallas County Hospital Foundation, Inc. (Foundation) was established to raise funds to support the Hospital. The Foundation is governed by a Board of Directors independent of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39. The Foundation's unaudited net assets were approximately \$109,671 and \$118,419 at June 30, 2012 and 2011, respectively. The Hospital has included transfers to the Foundation of \$36,601 and \$50,430 for the years ended June 30, 2012 and 2011, respectively, in the Statement of Revenues, Expenses and Changes in Net Assets. These amounts were to support the operations of the Foundation. The Foundation transferred grants totaling \$97,788 and \$67,929 as of June 30, 2012 and 2011, respectively, for operating and capital needs of the Hospital.

(15) Subsequent Event

In September 2012, the Hospital entered into an agreement of sale and purchase (Agreement) to acquire the entire south building addition, a portion of which is currently being leased by the Hospital (Note 11), and a medical office building which is currently being leased by a physician clinic group. The Agreement contains a due diligence period, no later than December 1, 2012, in which the Hospital can terminate the Agreement. If the Agreement is not terminated then the expected closing date shall not be later than December 15, 2012 with a purchase price of \$7,956,221.

Dallas County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) Required Supplementary Information For the Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount to be raised by taxation	\$ 2,055,992	78,701	2,134,693	2,095,122	39,571
Estimated other revenues / receipts	12,017,627	(42,759)	11,974,868	13,176,350	(1,201,482)
Total	14,073,619	35,942	14,109,561	15,271,472	(1,161,911)
Expenses / Disbursements	12,967,711	(202,748)	12,764,963	16,051,396	3,286,433
Net	1,105,908	238,690	1,344,598	(779,924)	\$ 2,124,522
Note receivable from Spring Valley	--	(3,495,000)	(3,495,000)		
Balance beginning of year	31,887,190	(11,519,050)	20,368,140	18,677,296	
Balance end of year	\$ 32,993,098	(14,775,360)	18,217,738	17,897,372	

See accompanying independent auditor's report

Dallas County Hospital

Exhibit 1

Patient Service Revenue
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical/surgical	\$ 664,880	62,698	--	727,578	542,344	59,730	--	602,074
Swing bed	--	--	534,112	534,112	--	--	468,735	468,735
	<u>664,880</u>	<u>62,698</u>	<u>534,112</u>	<u>1,261,690</u>	<u>542,344</u>	<u>59,730</u>	<u>468,735</u>	<u>1,070,809</u>
OTHER PROFESSIONAL SERVICES:								
Emergency department	30,384	2,695,251	--	2,725,635	38,002	2,460,391	--	2,498,393
Operating room	16,765	2,694,037	11,235	2,722,037	23,635	2,567,935	--	2,591,570
Laboratory	93,334	1,541,499	21,813	1,656,646	92,758	1,402,347	22,804	1,517,909
Pharmacy	181,709	1,103,688	155,802	1,441,199	195,852	1,014,764	128,397	1,339,013
Physical therapy	7,223	1,295,462	84,987	1,387,672	9,600	1,364,686	85,070	1,459,356
Emergency physicians	9,117	1,035,171	--	1,044,288	10,870	1,021,004	--	1,031,874
Radiology	14,101	1,004,092	5,307	1,023,500	12,015	928,659	4,635	945,309
CT scans	41,011	939,567	--	980,578	47,648	1,136,158	8,760	1,192,566
Mobile MRI	6,584	374,484	2,959	384,027	1,965	473,328	4,365	479,658
Ultrasounds	13,121	280,672	3,594	297,387	17,680	288,711	3,635	310,026
Cardiopulmonary	48,481	192,057	14,795	255,333	95,778	161,607	57,904	315,289
Sleep studies	--	240,648	--	240,648	--	256,600	--	256,600
Occupational therapy	1,800	175,305	26,095	203,200	1,360	197,695	30,030	229,085
Anesthesia	1,230	199,871	--	201,101	--	--	--	--
Electrocardiology	6,291	144,111	979	151,381	6,000	119,620	1,440	127,060
Intravenous therapy	40,565	63,602	10,295	114,462	39,283	96,237	18,676	154,196
Echocardiology	4,557	84,264	10,699	99,520	7,300	103,660	1,460	112,420
Specialty clinic	--	43,898	--	43,898	--	34,615	--	34,615
Bone density	--	32,350	--	32,350	--	13,200	--	13,200
Nuclear medicine	929	28,932	--	29,861	--	28,011	--	28,011
Corp wellness	--	29,355	--	29,355	--	25,780	--	25,780
Transfusion services	6,240	17,620	--	23,860	4,420	15,390	1,040	20,850
Speech therapy	1,785	17,555	1,185	20,525	2,115	44,860	2,700	49,675
Treadmills	--	12,082	--	12,082	--	9,280	--	9,280
Dietician	--	3,055	--	3,055	--	2,920	--	2,920
DCH outpatient surgery	--	--	--	--	--	1,749,073	--	1,749,073
	<u>525,227</u>	<u>14,248,628</u>	<u>349,745</u>	<u>15,123,600</u>	<u>606,281</u>	<u>15,516,531</u>	<u>370,916</u>	<u>16,493,728</u>
GROSS PATIENT SERVICE REVENUE	<u>\$ 1,190,107</u>	<u>14,311,326</u>	<u>883,857</u>	<u>16,385,290</u>	<u>1,148,625</u>	<u>15,576,261</u>	<u>839,651</u>	<u>17,564,537</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(3,647,439)				(3,634,609)
Charity care services and other discounts, based on charges forgone				<u>(582,670)</u>				<u>(828,462)</u>
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				12,155,181				13,101,466
PROVISION FOR BAD DEBT				<u>(850,998)</u>				<u>(559,626)</u>
NET PATIENT SERVICE REVENUE				<u>\$ 11,304,183</u>				<u>12,541,840</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CMS electronic health record incentive payments	\$ 113,992	--
Nutritional service	79,521	75,044
Vendor discounts/rebates	64,664	35,885
Grant revenue	63,968	18,802
South addition maintenance	59,225	54,859
Other	37,987	73,477
Medical records transcripts	7,742	9,085
Dietary instruction	<u>--</u>	<u>202</u>
	<u>\$ 427,099</u>	<u>267,354</u>

See accompanying independent auditor's report

Departmental Expenses
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Salaries	Professional Fees	Supplies and Other	Total	Salaries	Professional Fees	Supplies and Other	Total
NURSING SERVICES:								
Medical/surgical	\$ 807,145	145,448	54,790	1,007,383	830,590	128,995	58,815	1,018,400
Nursing administration	342,498	--	7,408	349,906	348,249	--	5,568	353,817
	<u>1,149,643</u>	<u>145,448</u>	<u>62,198</u>	<u>1,357,289</u>	<u>1,178,839</u>	<u>128,995</u>	<u>64,383</u>	<u>1,372,217</u>
OTHER PROFESSIONAL SERVICES:								
Emergency department	411,409	998,732	71,003	1,481,144	376,645	994,760	70,623	1,442,028
Laboratory	250,215	6,180	308,349	564,744	265,249	4,020	348,824	618,093
Physical therapy	--	555,129	6,540	561,669	--	583,947	7,062	591,009
Pharmacy	173,354	19,513	366,431	559,298	156,529	35,666	415,312	607,507
Operating room	200,730	21,887	268,113	490,730	205,958	12,254	253,970	472,182
Radiology	8,590	365,999	60,458	435,047	1,462	475,329	72,269	549,060
Anesthesia	--	159,212	--	159,212	--	135,626	--	135,626
Cardiopulmonary	94,433	--	30,695	125,128	165,447	4,497	29,560	199,504
Occupational therapy	--	81,280	1,612	82,892	--	91,634	1,039	92,673
Specialty clinic - south addition	8,765	48,173	5,607	62,545	7,799	37,414	3,852	49,065
Sleep studies	--	53,400	--	53,400	--	62,100	--	62,100
Cardiac rehabilitation	48,953	--	3,321	52,274	--	--	4,428	4,428
Mobile MRI	--	51,025	--	51,025	--	63,700	--	63,700
Echocardiology	--	38,581	--	38,581	--	48,618	47	48,665
CT scans	--	--	31,099	31,099	--	--	96,453	96,453
Education	21,424	2,094	4,191	27,709	14,111	1,048	6,775	21,934
Nuclear medicine	--	15,569	--	15,569	--	11,730	--	11,730
Speech therapy	--	8,210	--	8,210	--	20,119	1	20,120
Electrocardiology	--	7,605	401	8,006	--	6,105	455	6,560
Ultrasounds	--	--	3,573	3,573	--	--	289	289
DCH outpatient surgery	--	--	--	--	73,899	195,806	266,728	536,433
Auxiliary/Foundation coordinator	--	--	--	--	--	--	77	77
	<u>1,217,873</u>	<u>2,432,589</u>	<u>1,161,393</u>	<u>4,811,855</u>	<u>1,267,099</u>	<u>2,784,373</u>	<u>1,577,764</u>	<u>5,629,236</u>
GENERAL SERVICES:								
Facility	303,242	7,683	909,510	1,220,435	304,237	--	925,746	1,229,983
Nutritional services/dietician	157,896	27,665	116,135	301,696	153,077	31,412	108,551	293,040
Environmental services	122,045	53,187	11,966	187,198	105,770	97,096	15,115	217,981
	<u>583,183</u>	<u>88,535</u>	<u>1,037,611</u>	<u>1,709,329</u>	<u>563,084</u>	<u>128,508</u>	<u>1,049,412</u>	<u>1,741,004</u>
ADMINISTRATIVE SERVICES	<u>1,282,268</u>	<u>683,422</u>	<u>612,047</u>	<u>2,577,737</u>	<u>1,408,078</u>	<u>633,263</u>	<u>729,946</u>	<u>2,771,287</u>
NONDEPARTMENTAL:								
Depreciation	--	--	1,348,612	1,348,612	--	--	1,278,724	1,278,724
Employee benefits	--	--	999,226	999,226	--	--	1,001,799	1,001,799
Insurance	--	--	163,663	163,663	--	--	171,635	171,635
	<u>--</u>	<u>--</u>	<u>2,511,501</u>	<u>2,511,501</u>	<u>--</u>	<u>--</u>	<u>2,452,158</u>	<u>2,452,158</u>
TOTAL EXPENSES	<u>\$ 4,232,967</u>	<u>3,349,994</u>	<u>5,384,750</u>	<u>12,967,711</u>	<u>4,417,100</u>	<u>3,675,139</u>	<u>5,873,663</u>	<u>13,965,902</u>

See accompanying independent auditor's report

Patient Receivables and Allowance for Doubtful Accounts
June 30, 2012 and 2011

ANALYSIS OF AGING:

Days Since Discharge	2012		2011	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 916,117	52.55 %	1,039,100	58.13 %
31 - 60	304,394	17.46	245,811	13.75
61 - 90	161,847	9.28	143,735	8.04
91 - 120	106,299	6.10	104,687	5.85
> 120	254,617	14.61	254,317	14.23
	<u>1,743,274</u>	<u>100.00 %</u>	<u>1,787,650</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(452,659)		(496,428)	
Allowance for contractual adjustments	<u>(328,185)</u>		<u>(326,492)</u>	
	<u>\$ 962,430</u>		<u>964,730</u>	

	2012	2011
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	30.23 days	26.88 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 496,428	767,400
Provision of uncollectible accounts	850,998	559,626
Recoveries of accounts previously written off	257,991	259,454
Accounts written off	<u>(1,152,758)</u>	<u>(1,090,052)</u>
Balance, end of year	<u>\$ 452,659</u>	<u>496,428</u>

See accompanying independent auditor's report

Inventory/Prepaid Expenses
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
INVENTORY:		
Departmental	\$ 95,594	99,710
Pharmacy	82,573	80,258
General stores/central supply	27,306	33,432
Dietary	<u>4,775</u>	<u>4,838</u>
	<u>\$ 210,248</u>	<u>218,238</u>
 PREPAID EXPENSES:		
Insurance	\$ 63,591	142,137
Other	<u>39,828</u>	<u>38,165</u>
	<u>\$ 103,419</u>	<u>180,302</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Patient days:		
Acute	671	697
Swingbed	723	677
Respite	<u>45</u>	<u>74</u>
Total	<u>1,439</u>	<u>1,448</u>
Patient discharges:		
Acute	197	229
Swingbed	90	81
Respite	<u>11</u>	<u>17</u>
Total	<u>298</u>	<u>327</u>
Average length of stay:		
Acute	3.14 days	3.04 days
Swingbed	8.03 days	8.36 days
Respite	4.09 days	4.35 days
Emergency room visits	5,968	6,235
Specialty clinic visits	4,525	4,241
DCH outpatient surgery visits	--	374
Other outpatient visits	20,586	21,072
Number of employees - full-time equivalents	89.6	94.4

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the financial statements of Dallas County Hospital (Hospital), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Dallas County Hospital, and other parties to whom Dallas County Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Slm Johnson, LLP

Omaha, Nebraska,
October 19, 2012.

Dallas County Hospital

Schedule of Findings and Responses June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INSTANCES OF DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-12 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.
- III-B-12 Certified Budget: Disbursements during the year ended June 30, 2012 did not exceed the amount budgeted.
- III-C-12 Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-12 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-12 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which permits a direct interest of less than or equal to \$1,500 in transactions between a Hospital Trustee or a Hospital Trustee's spouse and the Hospital.
- III-F-12 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-12 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.
- III-H-12 Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...". We noted no instances of non-compliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor.

Dallas County Hospital

Audit Staff
June 30, 2012

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner
Chase S. Manstedt, CPA, In-Charge
Vanessa Paswaters, Staff Auditor